



APPROVED MINUTES

AUDIT COMMITTEE REGULAR MEETING

MONDAY NOVEMBER 16, 2009

**CITY HALL, KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BLVD
SCOTTSDALE, AZ 85251**

- PRESENT:** Robert Littlefield, Chair
Suzanne Klapp, Councilwoman
- ABSENT:** Lisa Borowsky, Vice Mayor
- STAFF:** Laura Zook, City Clerk's Office
Janet Cornell, City Court
Richard Chess, Financial Management
Raun Keagy, Neighborhoods
Linda Butson, Public Works
Rod Ramos, Public Works
Dan Worth, Public Works
Marshall Brown, Water Resources
Gina Kirklin, Water Resources
John Ralston, Water Resources
Kyla Anderson, City Auditor's Office
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Joanna Munar, City Auditor's Office
Kim Prendergast, City Auditor's Office
Sharron Walker, City Auditor's Office
- GUESTS:** A. Carter Smitherman, Larson Allen, LLP

Call to Order/Roll Call

Chair Littlefield called the meeting to order at 5:19 p.m. Attendance of Committee Members was confirmed as noted above.

1. Approval of Minutes

COMMITTEE MEMBER KLAPP MOVED APPROVAL OF THE MINUTES OF THE:

- **REGULAR MEETINGS - OCTOBER 21, 2009**
- **SPECIAL MEETINGS - MARCH 25 & 26, 2009, OCTOBER 26, 2009, AND NOVEMBER 2, 2009, AND**
- **EXECUTIVE SESSIONS - MARCH 25 & 26, 2009, OCTOBER 21 & 26, 2009, AND NOVEMBER 2, 2009.**

CHAIR LITTLEFIELD SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF TWO (2) TO ZERO (0). COMMITTEE MEMBER BOROWSKY WAS ABSENT.

2. Discussion with City's external auditors regarding results of the annual audit, the FY 2009 Comprehensive Annual Financial Report, Management Letter, and Single Audit Report

Mr. A. Carter Smitherman of Larson Allen LLP discussed the findings of the annual external audit. He reported that his firm had no difficulties or disagreements with management. Minor corrections that they found were not material to the City's financial statements and they gave an unqualified opinion on the Comprehensive Annual Financial Report. They also have no significant findings or material weaknesses in the single audit of the major Federal programs of the City.

3. Discussion and possible action on Audit Report No. 1001, Boards and Commissions

Ms. Kim Prendergast of the City Auditor's Office reported on this audit. In general, the auditors found that the boards and commissions are following requirements. However the boards and commissions could benefit from a clear, consistent structure that emphasizes compliance, provides guidance for the use and creation of sub-committees, maintains up-to-date bylaws, and incorporates staff liaison training and coordination.

The City Council establishes boards and commissions and appoints their members. Council may want to consider certain actions. Given the current economic constraints and the recent City reorganization, Council may want to consider the continued relevance and organizational alignment of the boards and commissions. Council may want to establish a sunset period, such as every two to five years, to consider the continuation of each board or commission. Thirdly, Council may want to consider eliminating the Redevelopment Board, which has not operated since 2001.

The auditors recommend that the City Manager and City Clerk coordinate staff resources to ensure consistent support and guidance to boards and commissions, including the following:

- 1) Ensure compliance with holding officer elections in January or propose an amended requirement
- 2) Promote Open Meeting Law compliance and cost efficiency by proposing an ordinance to require each board or commission to annually evaluate its use of sub-committees.

- 3) Establish basic training for and encourage networking among staff liaisons to promote consistency in staff support for the citizen boards and commissions.

Management agreed with the audit recommendations, and additional details are in the report.

Committee Member Klapp expressed surprise that there are sub-committees of sub-committees, and opined that that should be discouraged. She hoped that Council will discuss the concept of sunset periods.

She inquired which board has no bylaws. Ms. Prendergast told her this is the Budget Review Commission. Chair Littlefield commented that several boards and commissions were without bylaws until last year when the City Clerk encouraged them to rectify this. He concluded that the City Clerk and the City Manager's staff have done what they can; it is now up to City Council to be involved.

Committee Member Klapp said the recommendation that each board and commission provide an annual report to Council is excellent. Chair Littlefield agreed, suggesting that the Chair of each body should make their report to Council in a public meeting. Committee Member Klapp said that would provide recognition to the boards and commissions.

City Auditor Sharron Walker explained that this item was agendized for possible action to allow the Committee to give direction to the auditors. Chair Littlefield and Committee Member Klapp asked that the report to be agendized for early in the new year to discuss the recommendations with Council.

4. Discussion and possible action on Audit Report No. 1002, Street Overlay and Maintenance Program

Ms. Lisa Gurtler of the City Auditor's Office reported that this audit addresses the preventive maintenance services designed to improve or extend the functional life of City streets, curbs, and sidewalks. The auditors found that the street overlay and maintenance program generally has effective controls. Opportunities for improvement include streamlining several inspection reports into a single report. This would help to ensure that materials received are properly reconciled for billing purposes and that key inspection activities are effectively monitored. Other recommendations focused on overall program administration. These included documenting the evaluation factors used in developing the five-year and annual street treatment plans, timely review and approval of invoices, and reviewing the relevance of the program's performance measures, particularly the percentage of budget spent on rubberized asphalt overlay treatments.

Municipal Services General Manager Mr. Dan Worth thanked the City Auditor's staff for looking at the program. Public Works is proud of the program and its results. For example, they are able to meet their goal of patching every pothole within two days with a two-man crew.

5. Discussion and possible action on Audit Report No. 1003, Irrigation Water Distribution System (IWDS)

Ms. Joyce Gilbride of the City Auditor's Office reported that the IWDS is a water distribution system operated by the City to provide irrigation to 3 Scottsdale golf courses. Since the IWDS is a cost recovery program, the objective of the audit was to determine whether program costs are recovered through billings to the participants. The audit concluded that program costs are recovered through billings to the participants as intended. As well, reserve funds have been maintained in accordance with the agreements.

Two areas were noted for improvement. The City charges in-lieu property taxes to City enterprise funds. Since 2006, the in-lieu property tax rate charged to the IWDS and other City enterprise funds has been higher than the rate established in State statute. City enterprise funds paid approximately \$375,000 more for in-lieu property taxes during this time period than they would have if the correct rates had been applied. The auditors did not audit the in-lieu property tax process itself, and understand that there may be additional information regarding asset valuations used in these calculations.

Chair Littlefield said the City Treasurer will be bringing forward an item to Council about in-lieu property taxes as a policy issue. Ms. Gilbride said that based on that there could be adjustments to the overcharges.

The second area noted for improvement relates to water reserve credits. Since 2006 the City had not accrued the required operational reserve credits or the minimum volume of statutory reserve credits as stipulated in its agreement with the Central Arizona Water Conservation District (CAWCD). The Water Resources Department recently resolved this issue with the CAWCD and the IWDS participants. They are waiting for formal written acceptance of the plan from the CAWCD.

Mr. Marshall Brown said establishing the IWDS has been a challenge. The system was constructed by the golf courses and the City agreed to operate it. The City has signed off and accepted the delivery infrastructure, but has yet to sign off on the recharge facilities. In 2005 it was recognized that the facilities would not recharge the volumes anticipated, and since then the Department has worked with the golf courses to install additional improvements in the Carefree Basin where the facilities are located. All the facilities are now installed that are reasonable given the limitations in the ground. Staff went back to CAWCD to negotiate an extension of the operating reserve timeline. After a few finishing touches, the facility will be close to the City signing off on and accepting the improvements. At that point staff will be able to meet the obligations the City has under these agreements.

Committee Member Klapp wanted to know if the golf courses had owned this property privately, would they always be charged exactly the rate set forth in the State statute. Ms. Gilbride said there are different property tax classifications for different types of businesses. The IWDS property fell under the classification of water, sewer, and

wastewater utility companies. Ms. Walker clarified that the discrepancy arose because the statutory rate declined, but Financial Services had not adjusted the in-lieu property tax rate accordingly. The other variable is the asset valuation, which has not been audited. The interim City Treasurer is now looking into that question.

Chair Littlefield told Mr. Brown that he recently toured the Palo Verde Nuclear Generating Station and they expressed their gratitude to the City. Mr. Brown thanked the auditors for working with them and working to understand the recharging issues associated with the IWDS.

6. Discussion regarding status of current audit progress

Referring to a graph in the packet, Ms. Walker told the Committee that the auditors are on track, and she expects to stay on track with the audit plan.

7. Discussion of agenda items for next Audit Committee meeting

Ms. Walker noted that the January agenda is fairly short, although a date for the next meeting has yet to be set. A short meeting to precede the Council meeting on either January 19 or 26 has been suggested. Committee Member Klapp said it would make more sense to schedule the meeting for January 26 as the Council meeting on January 19 is tentative.

Ms. Walker told the Committee that the auditors expect to have three audits to report on at the February meeting. Committee Member Klapp reminded everyone that a date needs to be set for that meeting also as the regular meeting date falls on President's Day. Ms. Walker suggested holding it immediately before a City Council meeting. Chair Littlefield said this works well as long as there is enough time for the meeting. Committee Member Klapp suggested February 16 and Ms. Walker agreed to confirm the January and February meeting dates with Committee Member Borowsky.

Public Comment

No members of the public wished to address the Committee.

Adjournment

With no further business to conduct, being duly moved and seconded, the meeting adjourned at approximately 5:44 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz